

For information on
31 March 2009

**LEGISLATIVE COUNCIL
PANEL ON ECONOMIC DEVELOPMENT**

**Information and Consultation Agreement with
The Hong Kong and China Gas Company Ltd**

PURPOSE

The current Information and Consultation Agreement (ICA) between the Government and The Hong Kong and China Gas Company Limited (Towngas) will expire on 2 April 2009. This paper informs Members of the extension of the current ICA for a period of three years with effect from 3 April 2009.

BACKGROUND

2. Towngas is currently not subject to any price or profit regulation by the Government. The Government and Towngas first entered into an ICA relating to the Company's core gas business and gas-related activities in Hong Kong in April 1997. The ICA is a voluntary agreement with terms and conditions mutually agreed between both parties. Since then, the ICA had been extended three times in 2000, 2003 and 2006.

The Objective of the ICA

3. The objective of the ICA is to increase transparency in the Towngas' tariff setting mechanism, and provide justification thereof, in the event of tariff adjustments. The ICA also stipulates certain procedures for the Company to -

- (i) consult the Government in the event of tariff adjustments and major system additions (e.g. addition to infrastructure); and
- (ii) disclose certain corporate information to the public on an annual basis.

Experience to Date

4. The ICA has served its objective of enhancing transparency. Pursuant to the ICA, Towngas has consulted the Government on tariff adjustments and major system additions and disclosed the required corporate information to the public. There have been only two basic gas tariff adjustments since the inception of ICA in 1997. Basic gas tariff has remained stable. On the other hand, Towngas' introduction of liquefied natural gas as additional feedstock to naphtha for town gas production since October 2006 has also generated fuel savings amounting to HK\$3 billion for the customers.

Extension of ICA

5. The current ICA will expire on 2 April 2009. Following discussions with Towngas, we have agreed with them that the ICA should be extended for a period of three years with effect from 3 April 2009 on the same terms as the current ICA to meet its objective as set out in paragraph 3 above. The new ICA has been uploaded to the Environment Bureau's website <http://www.enb.gov.hk> for public information.

ADVICE SOUGHT

6. Members are requested to note the content of this paper.

Environment Bureau
March 2009